conclude that AT&T's calculations should not be used in analyzing the appropriate per-call compensation rate for access code and subscriber 800 calls.

We have reviewed each line item of AT&T's calculations and revised, where necessary, the per-station and per-call amounts to be more representative of the Coalition's experience. The following is a brief summary of the items reviewed and the basis for any changes made to AT&T's calculations.

- Call Counts: Mr. Robinson inappropriately assumes that the average coinless payphone will generate 700 coinless calls per month based upon the APCC's July 1, 1996, Comments[8]. The APCC, however, never indicated that the average payphone will generate 700 coinless calls. Rather, the APCC states that the average payphone generates 700 total calls, only 200 of which are coinless[9]. Coalition call count data produces slightly lower call counts (478 total calls per month and 172 coinless calls per month). The call figures provided by the Coalition are more representative of the payphone industry considering Coalition payphones account for almost 70% of all payphones in the industry. We have revised Mr. Robinson's calculations of the cost of carrying calls from coin and coinless stations using the Coalition-provided data: 172 coinless calls per month and 478 total calls per month.
- Equipment Investment: It appears that Mr. Robinson has understated the equipment investment in three ways. First, his choice to use the cost of a coinless call from a coinless phone as a proxy for the cost of a subscriber 800 or payphone access code call is inappropriate. Coinless payphones account for a very small portion of the total payphone base. Specifically, only 6% of all Coalition payphones are coinless and an even smaller portion are of the type (11A) used by AT&T in their coinless payphone cost

[8] See, Robinson Affidavit, page 12.

study. Secondly, Mr. Robinson may have understated the cost of coinless phones that are similar to 11A payphones. According to information provided by Frost & Sullivan, the average charge-only set cost is $416.[10] Mr. Robinson, however, uses an average 11A cost of $225.[11] Finally, Mr. Robinson excludes from his analysis AT&T's largest portion and most expensive coinless set. Using the information provided by Mr. Robinson in Appendix 1 to his affidavit, AT&T maintains approximately 11,000 card-type payphones[12] which, according to Frost & Sullivan, cost approximately $941.[13] We have revised Mr. Robinson's average cost of a coinless payphone to be $766 by computing the weighted average of AT&T's coinless set mix (5,500 11A and 11,000 card-type).[14]

- Enclosure Investment: It appears that the enclosure cost ($250) [15] used by Mr. Robinson is understated. Mr. Robinson's $250 per station cost estimate was calculated assuming that 75% of all payphones have enclosures costing $300 and the remaining 25% have enclosure costs of $100. [16] There are actually more than two types of enclosures, some of which cost significantly more than $300. For example, a full booth enclosure costs approximately $1,500, a large walk-in enclosure costs approximately $860, a large shelf costs approximately $770 and a small a walk-up costs approximately $350. The smallest enclosure, the small shelf, costs approximately $145. Using the simple average of these enclosure costs provides a more reasonable estimate. Therefore we revised the enclosure costs to be $725.[17]
- Cost of Equipment: Mr. Robinson's calculation of the average return on the set and

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[9] See, APCC Comments (July 1, 1996), page 5 [hereinafter "APCC Comments"].
[10] See, Frost & Sullivan, U.S. Payphone Markets (March 1997), page 5-7.
[11] See, Robinson Affidavit, Appendix 1.
[12] Id.
[13] See, Frost & Sullivan, U.S. Payphone Markets (March 1997), page 6-6.
[14] See, Robinson Affidavit, Appendix 1.
[15] Id.
[16] Id.
[17] Cost information provided by one Coalition member.

enclosure investment, including depreciation, (16.7%[18]) is understated. Using estimates provided by the Coalition, a more reasonable return which compensates for depreciation, cost of money and income taxes, is 26%.

- Installation Expenses: AT&T calculates the installation expenses by amortizing the installation costs over a 10 year period[19]. While this may be appropriate for AT&T and IPPs, it is not applicable to the Coalition members. In summary, Coalition members estimate the annual installation expenses assuming a five to seven year amortization period. The purpose for the reduced amortization period stems from the fact that most Coalition members maintain dumb sets. In addition, the average location life is five to seven years. We have recomputed Mr. Robinson's estimate of installation expenses assuming a seven year amortization period for smart and coinless sets.

- Maintenance Costs: Mr. Robinson understates the cost of maintenance on coinless phones by omitting any expenses associated with enclosures, benches and taxes. Consequently, we have conservatively revised the maintenance calculation to correct Mr. Robinson's calculations by including the maintenance expense associated with enclosures, benches and taxes.

- Coin Collection and Counting Costs: To estimate the number of coin collection visits to coin stations, Mr. Robinson assumes that the average coin phone generates approximately $5.00 per day in coin[20]. This is simply not true for the majority of Coalition phones. Specifically, Coalition payphones, on average, generate approximately $2.50 of coin revenue per day. We have recomputed the coin and

[18] This rate is implicit in Mr. Robinson's calculations. He indicates that the per month return on capital for a dumb set is $13.92. This amounts to $167.04 annually, which is 16.70% of the $1,000 dumb set, enclosure and pedestal investment. The return on smart sets and 11A sets, both with enclosure and pedestal, also result in a rate of return of 16.70%. See, Robinson Affidavit, Appendix 1.

[19] See, Robinson Affidavit, page 5.

[20] Id. at Appendix 1.

collections expenses associated with coin stations using the $2.50 per day coin revenue figure provided by the Coalition.

- Joint and Common Costs: AT&T's estimate of overhead costs is understated in comparison to the joint and common costs incurred by the Coalition members. In addition, Mr. Robinson did not provide any basis for allocating 111% more costs[21], on a per station basis, to coin phones than to coinless phones. We have revised Mr. Robinson's calculations by allocating joint and common costs ratably amongst set types using data provided by the Coalition. In summary, Coalition members incur approximately $23 per station, per month in joint and common costs. This allocation may understate the amount attributable to coinless stations. Several Coalition members and IPPs believe that coinless calls may soon receive a disproportionately large allocation of joint and common costs because of the increasing uncollectible rates and administrative costs associated with collecting per-call compensation (see Section IV of this report for additional details).
- Commissions: AT&T inappropriately excludes the cost of commissions in the per-station calculations. Commission costs are volume sensitive (i.e., incremental) and are generally accepted as a component of incremental cost studies. But for these payments to the location provider for the use of their facilities, payphone services could not be provided. Consequently, we have included an estimate for commission costs per station, based upon data provided by the Coalition (using commission rates applicable to local and toll revenue).

[21] See, Robinson Affidavit, page 9.

- Costs Related Exclusively to Access Code and Subscriber 800 Calls: Several IPPs and the American Public Communications Council ("APCC") make note of costs that relate exclusively to access code and subscriber 800 calls. Within their Comments, the APCC quantifies these costs at $0.05[22] per access code and subscriber 800 call (for a further discussion of these costs, please refer to Section IV of this report). In addition, we have previously estimated that the cost of providing Flex ANI technology to be $0.05 - $0.08 per access code and subscriber 800 call.[23] To be all inclusive in our treatment of costs associated with providing payphone services, we have revised Mr. Robinson's analysis to include these costs.

The following table illustrates the impact of the revisions described above to AT&T's calculation:

	Set Type		
	Dumb	Smart	Coinless
AT&T Original Calculation	$0.20	$0.20	$0.11
Call Count Adjustment	0.09	0.09	0.34
Subtotal	$0.29	$0.29	$0.45
Cost Adjustments:			
Equipment Costs	0.04	0.04	0.14
Installation Costs	0.00	0.00	0.01
Maintenance Costs	0.00	0.00	0.01
Coin Collection Costs	(0.02)	(0.02)	0.00
Joint and Common Costs	0.01	0.01	0.08
Basic Line Charge[24]	0.00	(0.01)	0.00
Commissions	0.05	0.05	0.05
Dial Around Costs	0.04	0.04	0.10
Adjusted Costs per Station	$0.41	$0.40	$0.84

[22] See, APCC Comments, pages 14-15.

[23] The cost of providing a blend of OLNS and Flex ANI technology, however, may be as low as $0.01 per access code and subscriber 800 call.

[24] Mr. Robinson's estimate overstates local usage fees and thus overstates the difference between coin and non-coin call costs. In particular, he assumes that all payphones use lines with measured local usage rates. This, as we have shown before, is not accurate since a majority of Coalition members use flat rated lines.

Similar flaws to those noted above are incorporated into Mr. Robinson's "Top-Down" analysis. This approach is inappropriate when analyzing cost differences between coin and coinless calls. [25]

SECTION III: RELATIONSHIP OF TOTAL TOLL REVENUE TO ACCESS CODE AND SUBSCRIBER 800 REVENUE

Many Commenters suggest that the responsibility for interim compensation should be shared amongst all carriers based upon their relative amount of total toll revenues. Inherent in this suggested methodology is the presumption that access code and subscriber 800 revenue represent a comparable percentage of total toll revenues across all carriers (LECs and IXCs). The Coalition requested that Arthur Andersen review the relationship of total toll revenues to access code and subscriber 800 revenue for IXCs and Coalition members. Based on our study, we do not view toll revenues as an accurate predictor of payphone access code and subscriber 800 call volumes or revenue.

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[25] Mr. Robinson, in paragraph 21 of his affidavit, attempts to illustrate that the cost per coinless call is 45% less than the per-call cost of a coin call. His analysis, however, is inaccurate because it focuses exclusively on the cost per station, not the cost per call. Simply because the cost of a coin station is larger than the cost of a coinless station does not equate to a coin call costing more than a coinless call. The best example is illustrated in per-call commission costs. We have estimated that total commissions for both coin and coinless calls is $0.05. Using Mr. Robinson's methodology, however, the total commission costs for a coin station would be approximately $24 ($0.05 x 478 calls) and the total commissions on a coinless station is $9 ($0.05 x 172 calls). According to Mr. Robinson, this would translate to a per-call cost difference between coinless and coin calls (and coin calls costing 2.5 times as much as coinless calls) when, in fact, the cost per call is identical. The same error is implicit in nearly all of the costs included in Mr. Robinson's analysis, such as equipment, maintenance, warehousing, shipping, staff and basic line charge costs. As described in our report dated August 26, 1997, we estimated, using Coalition data and a proper fully allocated cost methodology, that the difference between coin and coinless calls, excluding factors associated with ANI ii and per-call compensation administrative costs, to be $0.04 per call. Were we to include these costs, the cost per coinless call would exceed the cost of a coin call.

A. Many Coalition Members Do Not Provide IntraLATA Access Code Services

As discussed in Section III of our report dated August 26, 1997, several Coalition members currently do not provide access code services within their calling area yet have a tremendous amount of intraLATA toll revenue from non-access code dialing. Specifically, three of the eight Coalition members do not provide intraLATA access code services. To burden these parties with a portion of interim compensation on access code calls simply because they have a large portion of intraLATA toll revenue would not be reasonable.

B. Using Toll Revenues As A Predictor of Subscriber 800 Revenue Is Not Accurate

To illustrate the differing relationships that toll revenues have with subscriber 800 revenues, we estimated the total toll and subscriber 800 revenues generated by IXCs and LECs. To begin, we summarized the total toll revenues for each group for the year ended 1996 based upon information provided by Frost & Sullivan and the FCC. The following table summarizes our findings:

Carrier	Annual Toll Revenue
Interexchange Carrier	$80.04 Billion[26]
% of Total	88%
Local Exchange Carrier	$11.25 Billion[27]
% of Total	12%
Total	$91.29 Billion

[26] The figure from the FCC Common Carrier Preliminary Statistics has been adjusted to represent only interLATA toll revenue so that it will be comparable to the interLATA subscriber 800 data we represent. According to an article in USA Today, IXCs generate 15% of total intraLATA toll revenue. Since toll revenue from LECs is primarily intraLATA toll revenue, it should represent 85% of total intraLATA revenue. Hence, we have removed $1.99 billion (=11.25 billion / 85% * 15%) from the total toll revenue generated by IXCs, $82.03 billion from FCC, Preliminary Statistics of Communications Common Carriers, Table 1.4--Total Toll Service Revenues, 1996. See Steve Rosenbush, Competition Bringing Cheaper Local Toll Calls, USA Today (August 5, 1997).

[27] See, FCC, Preliminary Statistics of Communications Common Carriers, Table 1.4--Total Toll Service Revenues, 1996.

We also estimated the total amount of subscriber 800 revenue generated from both IXCs and LECs. We then quantified the relationship between total toll revenues and subscriber 800 revenues for each party. The following table summarizes our findings:

Carrier	Annual Toll Revenue	Subscriber 800 Revenue	Subscriber 800 Revenue as % of Total Toll Revenue
Interexchange Carrier	$80.04 Billion	$10.80 Billion[28]	13%
% of Total	88%	97%	
Local Exchange Carrier	$11.25 Billion	$0.29 Billion[29]	3%
% of Total	12%	3%	
Total	$91.29 Billion	$11.09 Billion	12%

As illustrated in the above table, LECs carry only 3% of the total subscriber 800 traffic, yet, if the toll revenues were used to prorate responsibility for interim compensation, LECs would assume a liability that is 300% greater than their relative share of subscriber 800 revenue. These findings are consistent with our review of the actual toll call revenues and subscriber 800 revenues for Coalition members. For those Coalition members providing data, the total subscriber 800 revenues amounted to approximately 3% of total toll revenues. This, like Frost & Sullivan data, shows once again that, while total toll revenues may (or may not) currently be an accurate predictor for the distribution of subscriber 800 revenue or call volumes among IXCs, it can not serve such a purpose for LECs.

[28] See, Frost & Sullivan, U.S. Toll-Free and 900/976-Number Service Markets, 1997, page 4-8.
[29] Id. at page 5-7.

SECTION IV: AMENDMENT TO AVOIDED COST STUDY

After reviewing the Comments submitted by the American Public Communications Council ("APCC"), we have revised Section I.A of our August 26, 1997, report to incorporate additional costs associated only with payphone access code and subscriber 800 calls. Specifically, our earlier submission did not include the forecasted impact of uncollectibles, the associated interest lost on past due receivables or the additional administrative effort required to collect access code and subscriber 800 per-call compensation. As discussed on pages 14 and 15 of their Comments dated August 26, 1997, the APCC estimates that the per-call impact of dial around compensation collection costs is $0.05, which consists of $0.03 per call for losses due to bad debt, $0.01 per call for losses due to the time value of money and $0.01 per call for additional collection mechanisms[30].

We assume that independent payphone providers, and Coalition members alike, will continue to experience similar collection costs. As a result, we incorporated APCC's per-call estimates by applying each cost to access code and subscriber 800 calls exclusively (similar to our treatment of ANI ii costs). The following table illustrates the revised "Amended Calculation of PCC Based Upon Avoided Costs":

[30] See, APCC Comments, pages 14-15.

Adjustment Category	Per-Call Amount
Base	Local Coin Rate
Less: Avoided Costs	($0.04)[31]
Plus: ANI ii Costs	$0.05 - $0.08[32]
Plus: APCC Estimates:	
• Uncollectibles on PCC Compensation	$0.03[33,34]
• Time Value of Interest Lost from Payment Delays	$0.01[35]
• Collection Costs	$0.01[36]
Amended Calculation of PCC Based Upon Avoided Costs	Local Coin Rate + ($0.06 - $0.09)

ARTHUR ANDERSEN LLP

by Carl R. Geppert/omb

Carl R. Geppert

[31] See, RBOC/GTE/SNET Comments, Arthur Andersen Report (August 26, 1997), page 4.
[32] Id. at page 7.
[33] APCC Comments, page 14.
[34] Peoples Telephone Company, Inc. corroborates the $0.03 per-call estimate for uncollectibles. See Peoples Telephone Company, Inc. Comments (August 26, 1997), page 13.
[35] APCC Comments, page 14
[36] Id. at page 15.

CERTIFICATE OF SERVICE

I hereby certify that on this 9th day of September, 1997, I caused copies of the foregoing Reply Comments of the RBOC/GTE/ SNET Payphone Coalition to be served upon the parties on the attached service list by first-class mail; hand-delivery or overnight mail if denoted by asterisk.

Marilyn R. Leeland

FEDERAL COMMUNICATIONS COMMISSION
Implementation of the Pay Telephone Reclassification and
Compensation Provisions of the Telecommunications Act of 1996
CC Docket No. 96-128

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